

Message Text

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11

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 IGA-01 EB-07 COME-00 TRSE-00

OMB-01 AGR-05 CIAE-00 INR-07 NSAE-00 /037 W
----- 016336

R 111320Z JUL 75

FM AMEMBASSY SANTO DOMINGO
TO SECSTATE WASHDC 4209
INFO AMEMBASSY PORT AU PRINCE

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E.O. 11652: N/A

TAGS: AFIN, DR

SUBJECT: PL 480 TITLE I OUTLOOK FOR THE DOMINICAN REPUBLIC

REF: A) STATE 132034; B) SD 0122; C) STATE 148542; D) SD 2238;
E) SD 2813; F) SD 2740; G) SD 3001

1. IN THE LIGHT OF TUMBLING SUGAR PRICES, CONTINUED SEVERE DROUGHT, AND POSSIBLE FURTHER INCREASE IN PETROLEUM PRICES, WE HAVE BEEN CONSULTING WITH GODR OFFICIALS TO ASSESS THE CURRENT BALANCE-OF-PAYMENTS OUTLOOK. BASED UPON ALL AVAILABLE DATA, WE CONCLUDE THAT EARLIER ESTIMATES OF A BALANCE-OF-PAYMENTS SURPLUS FOR THIS YEAR ARE NO LONGER VALID AND THAT PROJECTIONS NOW INDICATE A DEFICIT OF APPROXIMATELY \$21 MILLION FOR 1975. THIS IS DUE PRIMARILY TO (1) SHARPLY REDUCED FOREIGN EXCHANGE EARNINGS IN TRADITIONAL EXPORTS, (2) REQUIREMENTS FOR SUBSTANTIALLY LARGER IMPORTS OF FOODSTUFFS, (3) HIGHER PRICES FOR MOST IMPORTS BECAUSE OF WORLD-WIDE INFLATION, AND (4) LOSS IN FOREIGN EXCHANGE RELATED TO THE 43 PERCENT ANNUAL EXPANSION OF MONEY AND CREDIT.

2. DURING THE AMBASSADOR'S COURTESY CALL ON THE NEW SECRETARY OF FINANCE, FERNANDO ALVAREZ BOGAERT, ON JULY 8, THE LATTER ESTIMATED A 1975 BALANCE-OF-PAYMENTS DEFICIT OF PERHAPS \$20 MILLION, OR ALMOST EXACTLY THE FIGURE IN THE TABLE BELOW WHICH EMBASSY/USAID HAD ALREADY INDEPENDENTLY ARRIVED AT. AFTER DESCRIBING IN SOME DETAIL THE PLIGHT OF THE COUNTRY AS A RESULT

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OF THE PROLONGED DROUGHT AND THE UNEXPECTED FALL IN SUGAR PRICES

FROM 65 CENTS PER POUND IN NOVEMBER TO THE CURRENT 15 AND 16 CENTS PER POUND, THE FINANCE SECRETARY TOLD THE AMBASSADOR THAT THE COUNTRY IS ENTERING A RATHER DIFFICULT PERIOD IN WHICH SUBSTANTIALLY LARGER FOODSTUFFS WOULD HAVE TO BE IMPORTED. MOREOVER, THE FINANCE SECRETARY CONTINUED, THE COUNTRY WILL AT THE SAME TIME HAVE MUCH LESS FOREIGN EXCHANGE RESERVES THAN EARLIER ANTICIPATED BECAUSE, AMONG OTHER REASONS, THE MORE THAN 40 PERCENT ANNUAL EXPANSION IN MONEY AND CREDIT IS ADVERSELY AFFECTING THE FOREIGN EXCHANGE RESERVES THROUGH ADDED IMPORT PRESSURES AND THE FLIGHT OF CAPITAL ABROAD.

3. THE FINANCE SECRETARY SAID THAT IF THE REQUESTED THREE-YEAR CCC CREDIT IS APPROVED FOR IMPORTING WHEAT, CORN, RICE, BEANS, AND TALLOW (REFTEL), THE COUNTRY SHOULD BE ABLE TO GET THROUGH 1975.

HE STRONGLY FELT, HOWEVER, THAT THE DR WOULD BE NEEDING A PL 480 TITLE I LOAN WHEN THE CCC IMPORTS RUN OUT.

4. WE WILL MAKE OUR RECOMMENDATIONS ON THE PL 480 TITLE I REQUEST AFTER WE HAVE HAD THE BENEFIT OF THE VISIT IN THE NEXT FEW DAYS OF THE DROUGHT ASSESSMENT TEAM. THE GODR HAS PUT TOGETHER A TASK FORCE UNDER THE GUIDANCE OF THE SECRETARY OF AGRICULTURE TO WORK ON THE DROUGHT SITUATION. WHILE THE ESTIMATE OF THE FULL EXTENT OF THE DAMAGE OF THE DROUGHT IS STILL BEING ASSESSED, WE HAVE TENTATIVELY CONCLUDED THE FOLLOWING FROM THE INFORMATION THUS FAR AVAILABLE: PERHAPS AS MUCH AS TWO-THIRDS OF THE TOBACCO CROP, A TRADITIONAL EXPORT-EARNER, WILL BE LOST; HALF OF THIS SEASON'S RICE CROP WILL ALSO BE LOST; THE LACK OF PASTURAGE WILL HAVE A NEGATIVE EFFECT OF AN UNDETERMINED QUANTITY ON MEAT EXPORTS. IN THE MARKETPLACES IN THE COUNTRYSIDE AS WELL AS IN THE CITIES, CRIOLLO FOODS SUCH AS PLANTAINS, MANIOC, YAMS, BEANS AND PIGEON PEAS ARE NOT AVAILABLE OR ARE BEING SOLD AT VERY HIGH PRICES. THE SAME IS TRUE WITH COOKING OIL.

5. WE BELIEVE THAT THE DR WILL PROBABLY BE EXPENDING SOMEWHAT MORE FOREIGN EXCHANGE ON FOOD IMPORTS IN 1975 THAN IN 1974. WHILE LOWER COMMODITY PRICES WILL STRETCH DOLLAR AMOUNTS MORE, LOSSES IN FOOD PRODUCTION DUE TO THE DROUGHT ARE NOW ESTIMATED BY THE SECRETARY OF AGRICULTURE AT \$100 MILLION.

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6. IN REGARD TO THE RAPID EXPANSION OF MONEY AND CREDIT AND THE CONCOMITANT LOSS OF FOREIGN EXCHANGE, PRESIDENT BALAGUER IN ANNOUNCING HIS RECENT AUSTERITY PROGRAM (REFTEL F) INDICATED HIS INTENTION TO RESTRAIN IMPORTS, INCLUDING MOST LUXURY ITEMS. THESE CONTINUE, NEVERTHELESS, TO TAKE PLACE THROUGH THE PARALLEL MARKET OR OTHERWISE AND ARE VERY DIFFICULT TO CONTROL. WE BELIEVE, ALSO, THAT THE GREATER AVAILABILITY OF

MONEY IS RESULTING IN MORE FLIGHT CAPITAL.

7. THE RECESSION IN THE US IS HAVING A NEGATIVE IMPACT ON THE DOMINICAN BALANCE OF PAYMENTS. BAUXITE EXPORTS ARE OFF. MEAT EXPORTS HAVE DECLINED SHARPLY BECAUSE OF LOWER PRICES IN THE US. AMERICAN TOURISTS APPEAR TO BE STAYING SHORTER PERIODS OF TIME, AND MAY BE TRAVELING LESS. APART FROM THE RECESSION, THERE HAS BEEN A DECLINE IN COFFEE PRICES AS WELL AS SUGAR.

8. ON THE BASIS OF ALL AVAILABLE INFORMATION, INCLUDING THE LATEST FIGURES FROM THE CENTRAL BANK, FROM THE FINANCE MINISTRY, AND FROM THE GODR'S CENTER FOR EXPORT PROMOTION (CEDOPEX), EMBASSY/AID NOW ESTIMATE THE 1975 BALANCE-OF-PAYMENTS AS FOLLOWS:

EXPORTS (FOB)	908
IMPORTS (FOB) (1)	790
BALANCE	PLUS 118

SERVICES (NET) (2)	MINUS 285
TRANSFERS (NET)	PLUS 62
CURRENT ACCT. BALANCE	MINUS 105

CAPITAL	
PRIVATE SECTOR	PLUS 25
PUBLIC SECTOR	PLUS 59
LONG-TERM	SZ (49)
SHORT-TERM (3)	(10)
NET BALANCE	PLUS 84

NET INTERNATIONAL RESERVES PLUS 21
(PLUS MEANS DECREASE)

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(1) REVISED IMPORT FIGURE INCLUDES \$70 MILLION ADDITIONAL FOOD IMPORTS BY INESPRES.

(2) CHANGE IN CURRENT ESTIMATE FOR SERVICES REFLECTS A CHANGE IN NET FREIGHT AND INSURANCE.

(3) REVISED SHORT-TERM CAPITAL FLOW INCLUDES SHORT-TERM LOANS OF \$70 MILLION YIELDING A NET INFLOW OF \$70 MILLION IN 1975 SINCE SERVICE ON DEBT DOES NOT BEGIN UNTIL ONE YEAR AFTER DRAWING OF LOAN.

9. IF APPROPRIATE, DEPARTMENT MAY WISH TO PASS ABOVE TO OFFICIALS IN IMF.

HURWITCH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANTO03085
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750241-0491
From: SANTO DOMINGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750764/aaaacfas.tel
Line Count: 167
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2003 by KelleyW0>; APPROVED <12 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PL 480 TITLE I OUTLOOK FOR THE DOMINICAN REPUBLIC
TAGS: AFIN, DR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006